

REALITY HIT MARKET ON RATES

The circus rolled back into town

Markets declined in the month as the reality dawned that central banks intended to keep rates at higher levels for longer. The MSCI World index declined by 1.91% in the month.

In the U.S. the Federal Reserve stressed a commitment to higher rates. This commitment was supported by stronger than anticipated economic data, notably on unemployment levels. The Federal Reserve statement led to the realization in the market that rates would remain high, and this led to a market sell-off. Within Europe, the European Central Bank raised rates again. Although markets expected this to be the last rate rise in this cycle, the ECB also raised its outlook for Eurozone inflation this year and next leading to an increased belief that European rates would also remain high for longer than expected.

With inflation in focus, the rising oil price was a concern for markets. Brent crude prices rose from \$86 per barrel at the beginning of the month to over \$95 per barrel by month end. This rise in prices, despite economic weakness from significant oil importers such as China, raised the specter of inflation.

Towards the end of the month, ever present political dysfunction in the U.S. once more threatened a government shut down by failure to pass a budget. This uncertainty led to further market sell offs in the final days of the month.

Germany and France were amongst the weakest markets as concerns grew over the strength of their domestic economies. The UK was one of the few major markets to rise in the month due to its exposure to energy companies that benefited from the rising oil price.

Higher rate outlook benefited the value style

The Portfolio declined by 0.16% in the month, outperforming the MSCI Europe Index which declined by 1.56%. The value style was a key determinant of performance in the month as the higher rate outlook for the market impacted more highly priced growth stocks. The MSCI Europe Value Index was up 0.92% in the month, ahead of both the MSCI Europe Index and the portfolio. The outperformance of the fund against MSCI Europe was due largely to the value style of the fund, although the portfolio did benefit from positive stock selection as well. Against MSCI Europe Value, the underperformance was primarily due to different sector allocations, where an underweight in energy compared to the index was a headwind.

Energy was the best performing sector, driven by the rising oil price. Financials were also modestly positive as the higher rate outlook led to rising expectations for bank earnings in the future. Information Technology and Consumer Discretionary were amongst the weakest sectors, reflecting the concentration of more highly priced growth stocks.

Although the value style was the dominant source of outperformance during the month against MSCI Europe, there was also some positive stock selection. Automaker Stellantis contributed well as it recovered from losses in August, despite continued tensions in relation to union negotiations in the U.S. The fund also benefitted from not holding large underperforming benchmark names like Dutch ASML which trade lower with tech in general and luxury-goods stocks like LVMH where inflation seemed to start to dent demand.

See performance and fund data

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Strategy

European Value invests in European equities, cf. the fund's prospectus. Stocks are selected using the value strategy, meaning that through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and countries.

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